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SUBJECT: Nabucco Gas Pipeline: Next Steps

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Sensitive but Unclassified - Protect Accordingly.

¶1. (SBU) SUMMARY: Austrian government and industry contacts are optimistic that the Nabucco consortium can build on positive momentum from the July 13 Intergovernmental Agreement (IGA) signing. The GoA has reaffirmed its support for Nabucco at the highest levels, while continuing to negotiate over participation in South Stream. Post will continue to support U.S. participation in Nabucco commercial opportunities, particularly steel: the consortium is also considering steel pipe from suppliers in Japan and India, who may have access to concessional financing). END SUMMARY.

The Legal Path Forward

¶2. (U) Nabucco Gas Pipeline International CEO Reinhard Mitschek (an OMV executive) said that with the IGA successfully completed, the consortium will now focus on concluding Project Support Agreements with all signatory countries. Mitschek has said publicly that the IGA will provide a "stable legal framework" by:
-- reserving 50% of the pipeline's capacity for consortium shareholders, with the remaining 50% on offer to third-party shippers;
-- establishing a standard tariff methodology; and
-- guaranteeing equal access for all market participants.
Mitschek argues that the IGA gives a strong "comfort margin" to gas producing countries, encouraging them to supply Nabucco.

¶3. (SBU) Negotiation of PSA's will likely proceed more smoothly than the IGA, predicts a contact in Austria's Ministry of Economy (cabinet advisor Gerhard Langeder). Langeder does anticipate that environmental impact studies (required for each of the transit countries) will be time-consuming and might raise local issues.

Ramping Up at Nabucco = Commercial Opportunities

¶4. (SBU) An OMV/Nabucco Company contact (spokesperson Christoph Dolezal) told us the pipeline investment decision will come in the first quarter of 2010 at the earliest. A sign of management optimism is the fact that the Nabucco Company has begun hiring numerous commercial, technical and legal experts (a total of 200-250 employees in the coming months). Dolezal mentioned that Nabucco has hired Richmond-based Penspen Engineering, who have begun to plan the pipeline route in detail.

¶5. (SBU) Dolezal outlined the next commercial steps for the Nabucco pipeline:
-- marketing transport capacity via the Open Season Process,
-- formal financing negotiations (with financial institutions such as European Investment Bank, European Bank for Reconstruction and Development and International Finance Corporation as well as export finance institutions).
The Nabucco Company is in advanced discussions to buy steel/steel components from Japan and India; he said the Nabucco Company would also welcome export guarantees from the USG and Canada.

Environmental Concerns

¶6. (SBU) Our MinEcon contact indicated that environmental groups could delay the pipeline by lobbying and filing complaints. There is growing resistance to the pipeline from European Green parties and environmental NGOs, who oppose natural gas as non-sustainable. In the face of such resistance to new fossil fuel infrastructure, the GoA is "marketing" Nabucco as a source of energy security/diversification and pointing out that natural gas will be a key part of Austria's energy mix until at least 2040. The GOA plans to reassure environmentalists that its support for Nabucco will not lessen its promotion of energy efficiency and renewable energies. Our Nabucco contact added that after Austria, Turkish groups have registered the most environmental concerns, with less concern expressed in eastern European transit countries.

Implications for TGI and South Stream

¶7. (SBU) OMV/Nabucco Company see the IGA as giving the Nabucco project a competitive advantage over the Turkey-Greece-Italy (TGI) pipeline -- because the IGA provides Azerbaijan a safe legal framework for supplying gas -- and predict that Nabucco will "prevail" over TGI. Our OMV and Nabucco Company contacts believe that the Nabucco and TGI projects are ultimately incompatible -- as they are competing for the same gas resources, particularly in Azerbaijan -- unlike South Stream with its guaranteed access to Russian gas.

¶8. (SBU) The GoA and OMV remain interested in participating in South Stream as an additional source of gas for the Baumgarten hub.

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Bilateral negotiations between Austria and Russia on a South Stream agreement are ongoing but "progress is slow" according to contacts. COMMENT: While contacts are not optimistic that a deal can be reached in time for the visit of Chancellor Werner Faymann to Moscow this fall, we surmise that the GoA has no objections to South Stream and would probably like to reassure Russians of Austria's commitment to long-term cooperation.

Interest in Continued USG Engagement

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¶9. (SBU) OMV/Nabucco contacts hope for continued U.S. diplomatic engagement, particularly with regard to pledges by the Iraqi government on the occasion of the IGA signing ceremony. NOTE: Iraqi PM Nouri al-Maliki said it could deliver up to 15 bcm for Nabucco, and a Northern Iraq gas field consortium which includes OMV has said it could provide 10 bcm of that amount). With this Iraqi gas, along with 8 bcm from Azerbaijan and 10 bcm from Turkmenistan, (as well as some gas from Egypt), OMV contacts indicate they could potentially fill Nabucco without reference to future gas from Iran.

¶10. (SBU) Dolezal told us OM would welcome U.S. support for Nabuccovis-a-vis Azerbaijan and that Nabucco representatives would also welcome the appointment of Matthew Bryza as new U.S. ambassador to Azerbaijan (as reported in the media) since Bryza has been a "valuable" partner in the past. But Dolezal also emphasized that his company would concentrate on relations with gas traders, shippers and suppliers for the pipeline in the future rather than on negotiations with governments on the gas supply issue. Langeder said that the GOA would welcome a visit by Special Envoy Morningstar to Austria.

COMMENT

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¶11. (SBU) The GoA regards the Nabucco pipeline project as an "insurance policy against future gas crises" (Foreign Minister Spindelegger), and its high-level support was epitomized by the participation of Chancellor Faymann at the IGA signing ceremony in Ankara. Nonetheless, as Western Europe's longest-standing importer of Soviet/Russian gas (since 1968), the GoA and OMV will continue to reassure Russian counterparts that Austrians value their energy ties to Russia/Gazprom.

¶12. (U) Post continues to facilitate U.S. company participation in Nabucco-related tenders and would support higher-level engagement by relevant agencies. END COMMENT.

HOH